



Supervision and Regulation of Microfinance Institutions in Indonesia

**OJK International Seminar on Microfinance &
Financial Inclusion, March 2016**

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Indonesia

Financial Services Authority

(Otoritas Jasa Keuangan – OJK)



Regulate
Supervise
Protect
For Sound Financial Industries

Establishment of OJK

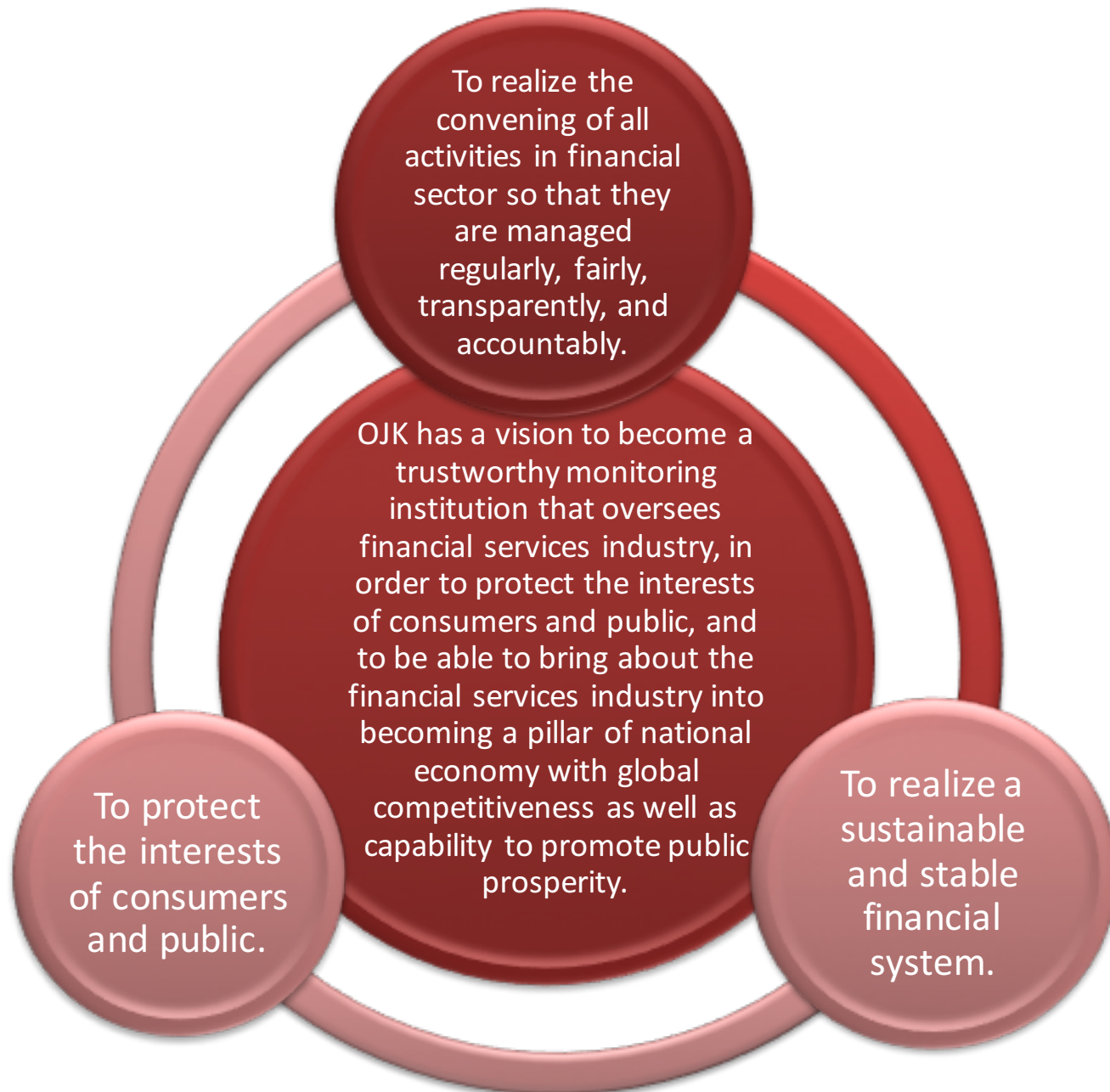


Act No. 21 of Year 2011

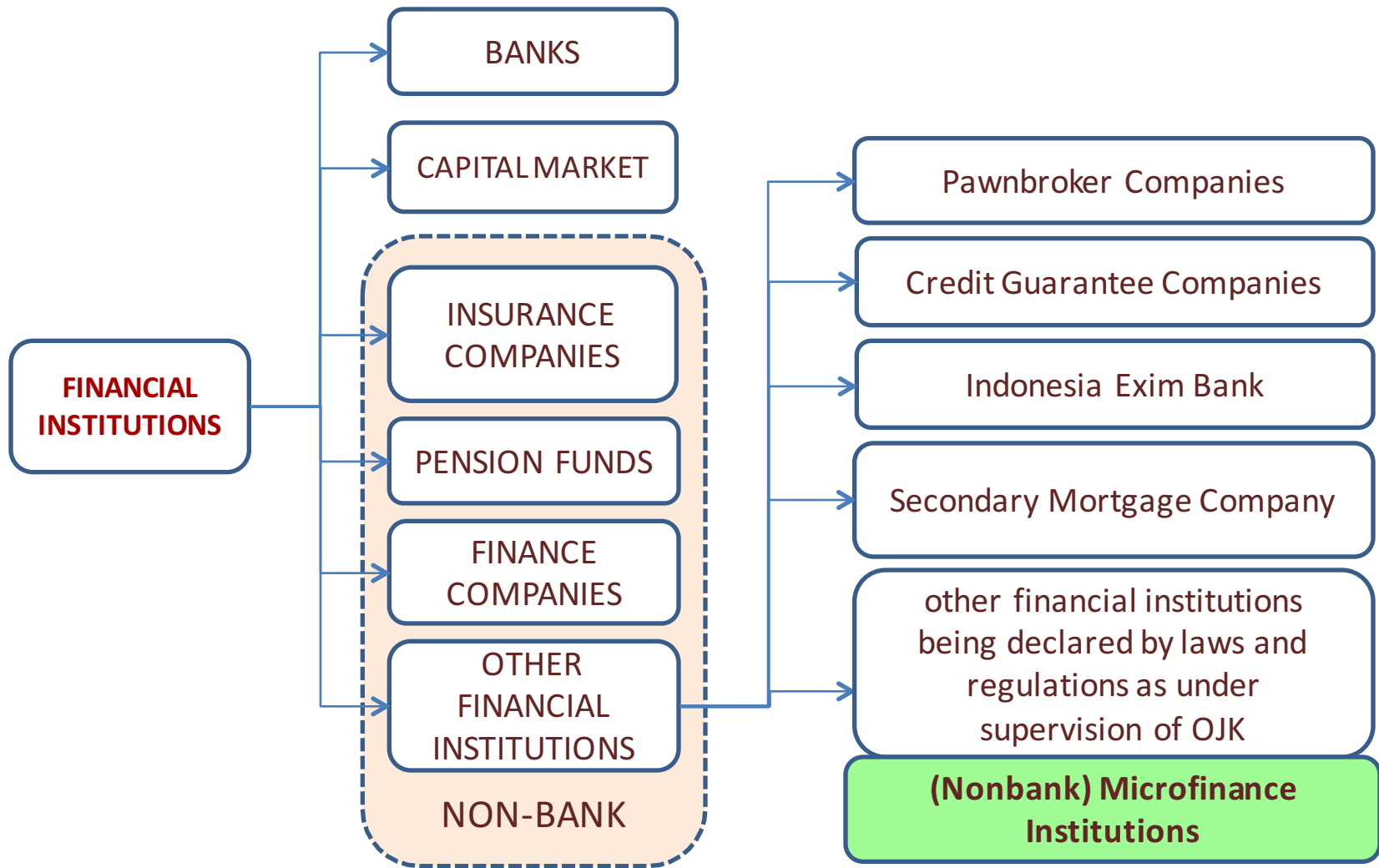


Integrated Supervision

OJK Vision & Mission



Financial Services Supervised by OJK



Microfinance Institutions in Indonesia



Regulate
Supervise
Protect
For Sound Financial Industries

MSMEs & Big Enterprises

	2011	2012	2013
Micro	54,559,969	55,856,176	57,189,393
Small	602,195	629,418	654,222
Medium	44,280	48,997	52,106
Big	4,952	4,968	5,066

Source: Ministry of Cooperatives & SMEs

Informal MFIs

	National Team of MFI Bill (2000)		OJK* (Dec 2015)
	Government	Parliament	
Initiated by community /NGO	1,250	24,392	24,649
Unable to transform into rural banks in 1997	6,241	6,971	
Government programs	90,659	606,475	
Total	98,150	637,838	

Sources: ProFI GTZ, National Team of MFI Bill, OJK

* Based on MFI Act, OJK must conduct survey and collect data of informal MFIs until Jan 2017. The survey is in coordination with Ministry of Home Affairs and Ministry of Cooperatives & SMEs, and supported by Regional Governments (Province/City) and Bank Rakyat Indonesia.

Example of Informal MFIs



National Program of Community Empowerment (PNPM)

Umbrella program for poverty alleviation based on community empowerment

Terminated in December 2014

Program for village community: total revolving fund was IDR 10.7 trillion spread over 5,300 subdistricts

Sources: National Team for the Acceleration of Poverty Alleviation, Ministry of Development Planning



Subdistrict Credit Agency (BKK) in Central Java

Established by the Provincial Government of Central Java

In 1992-1997 few of them were transformed into rural banks, but the majority failed

After being merged in 2014, there were 29 BKK and 131 branch offices, with total assets IDR 1.88 trillion. Now they are in the process of becoming rural banks

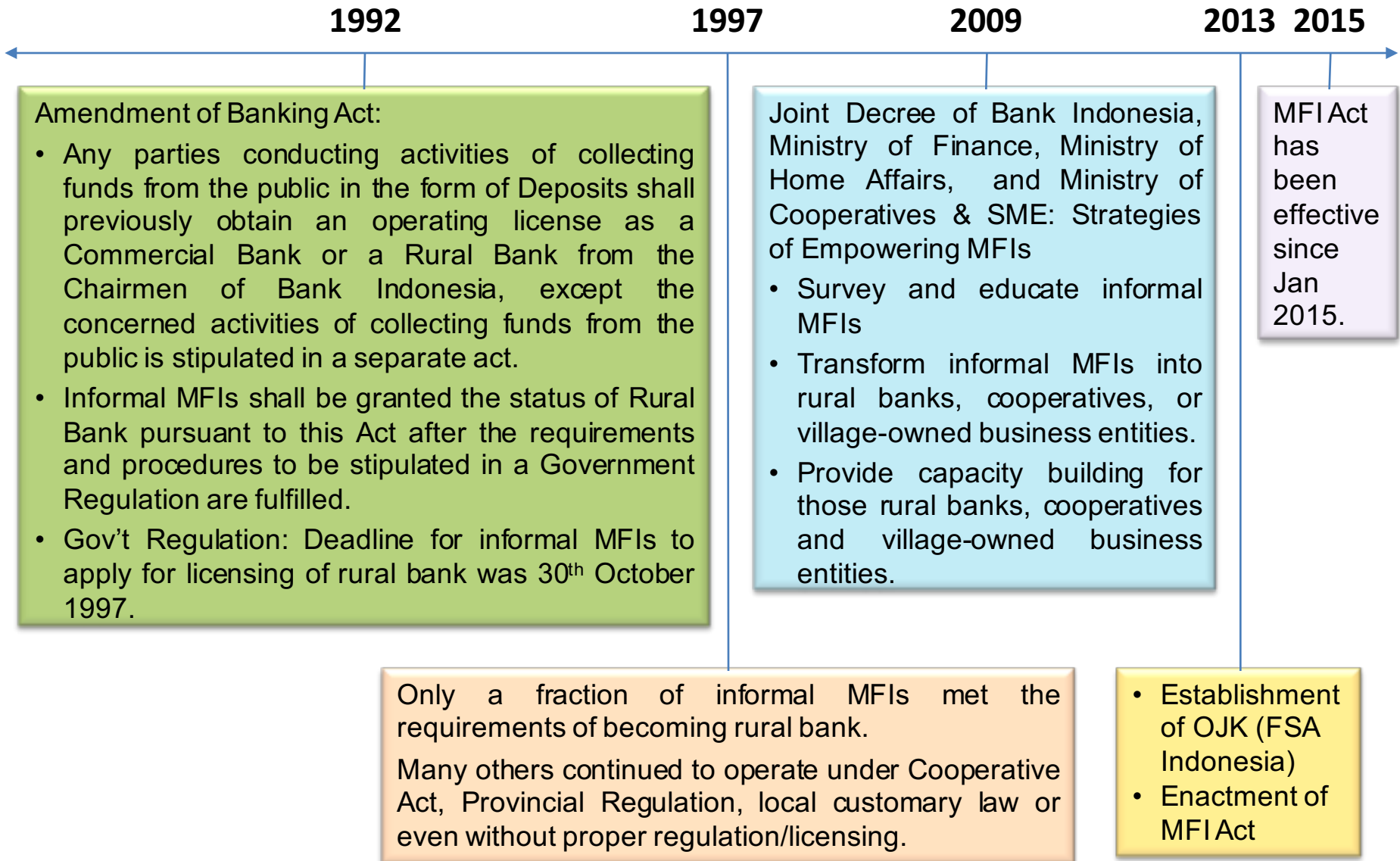
Source: Provincial Government of Central Java

(Nonbank) MFIs Regulations



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MFI Regulation Timeline



Regulation Framework



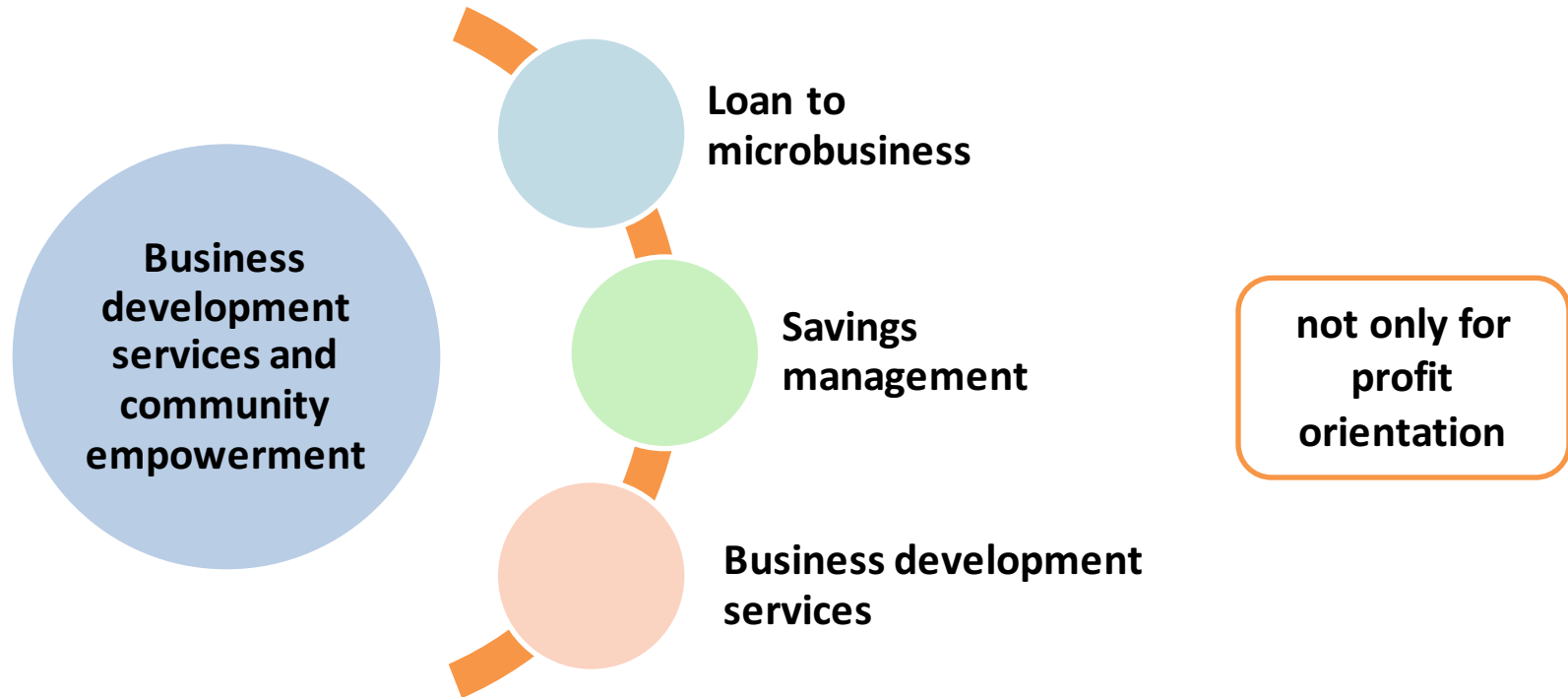
Government Regulation No. 89 of 2014 on Lending Rate and Coverage of Business Area

• No. 12 of 2014 amended by No. 61 of 2015 on Business License and Institutional Aspects of (Nonbank) MFIs

• No. 13 of 2014 amended by No. 62 of 2015 on Business Activities of (Nonbank) MFIs

• No. 14 of 2014 on Supervision of (Nonbank) MFIs

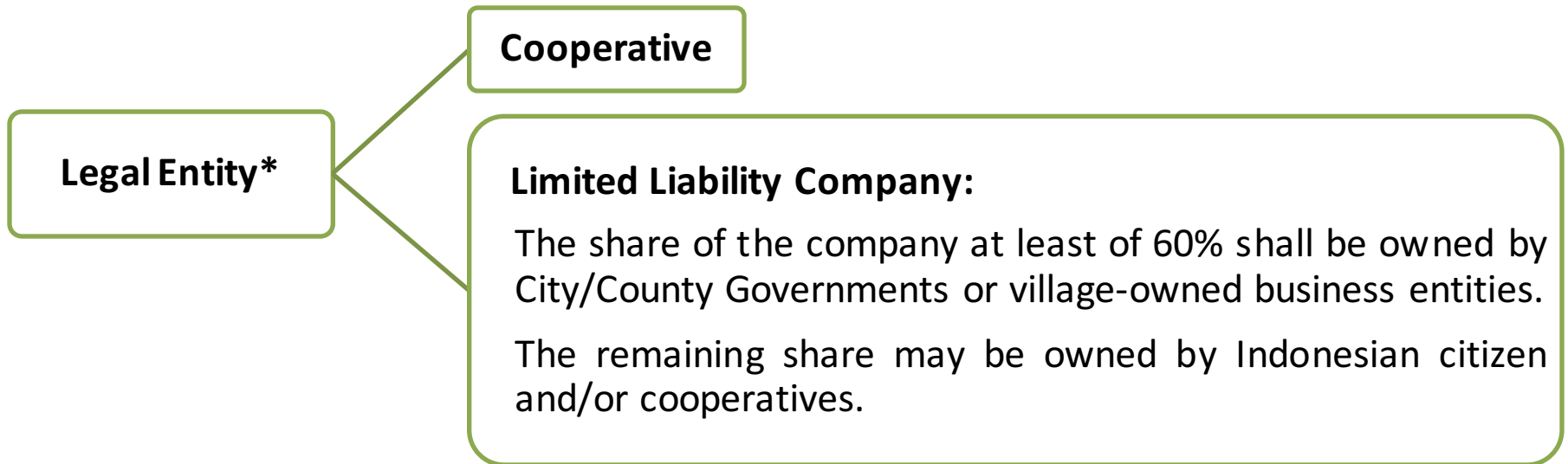
Business Activities of (Nonbank) MFIs



Besides operating business as explained above, (nonbank) MFIs may also conduct fee-based activities, as long as they are not contradictory to the prevailing laws and regulations in the financial sector.

Sharia MFIs may manage social funds in the form of *zakat*, *infaq*, *shodaqoh*, and *waqaf* according to the provision of laws and regulations.

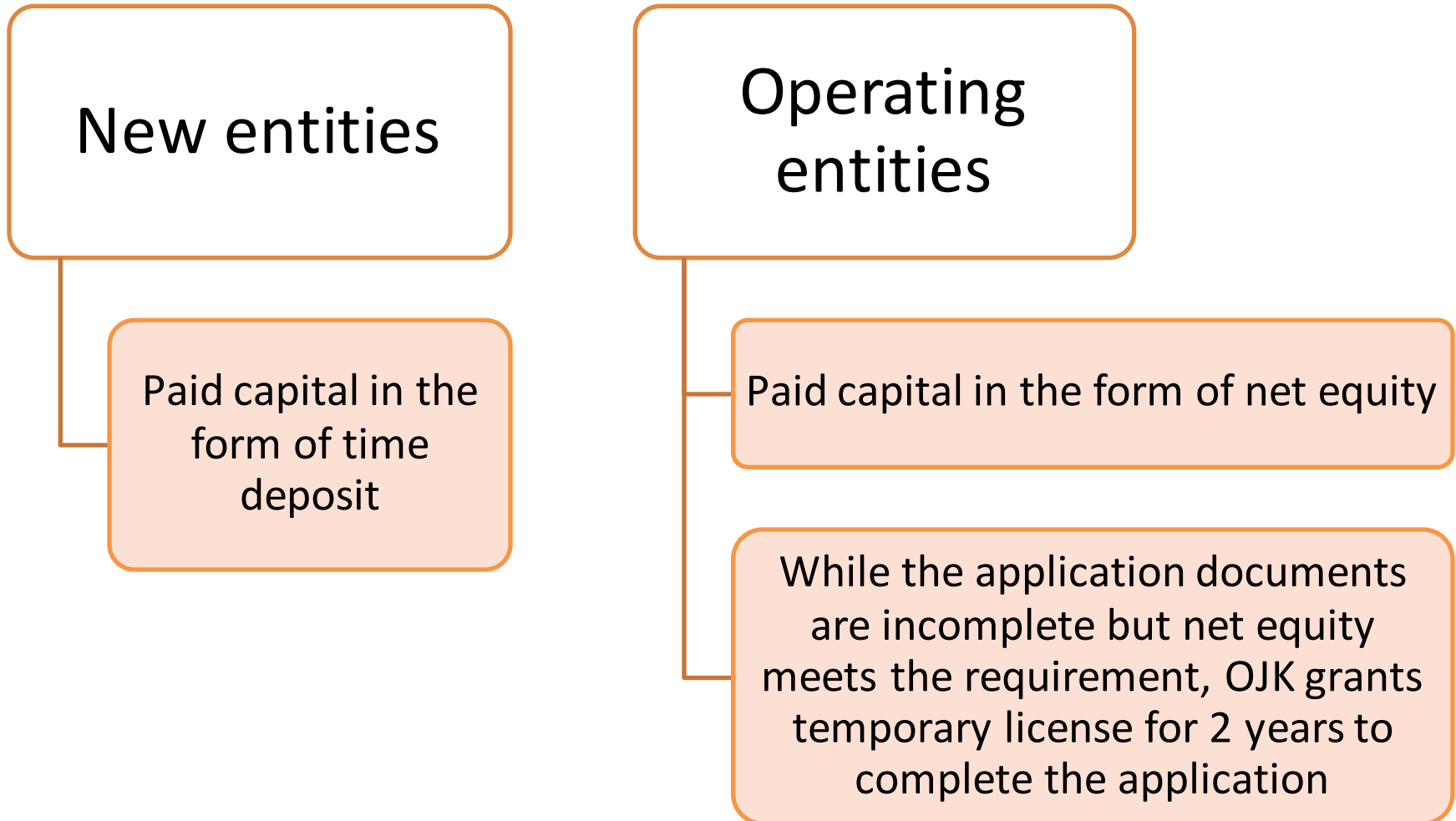
Legal Entity and Business Area



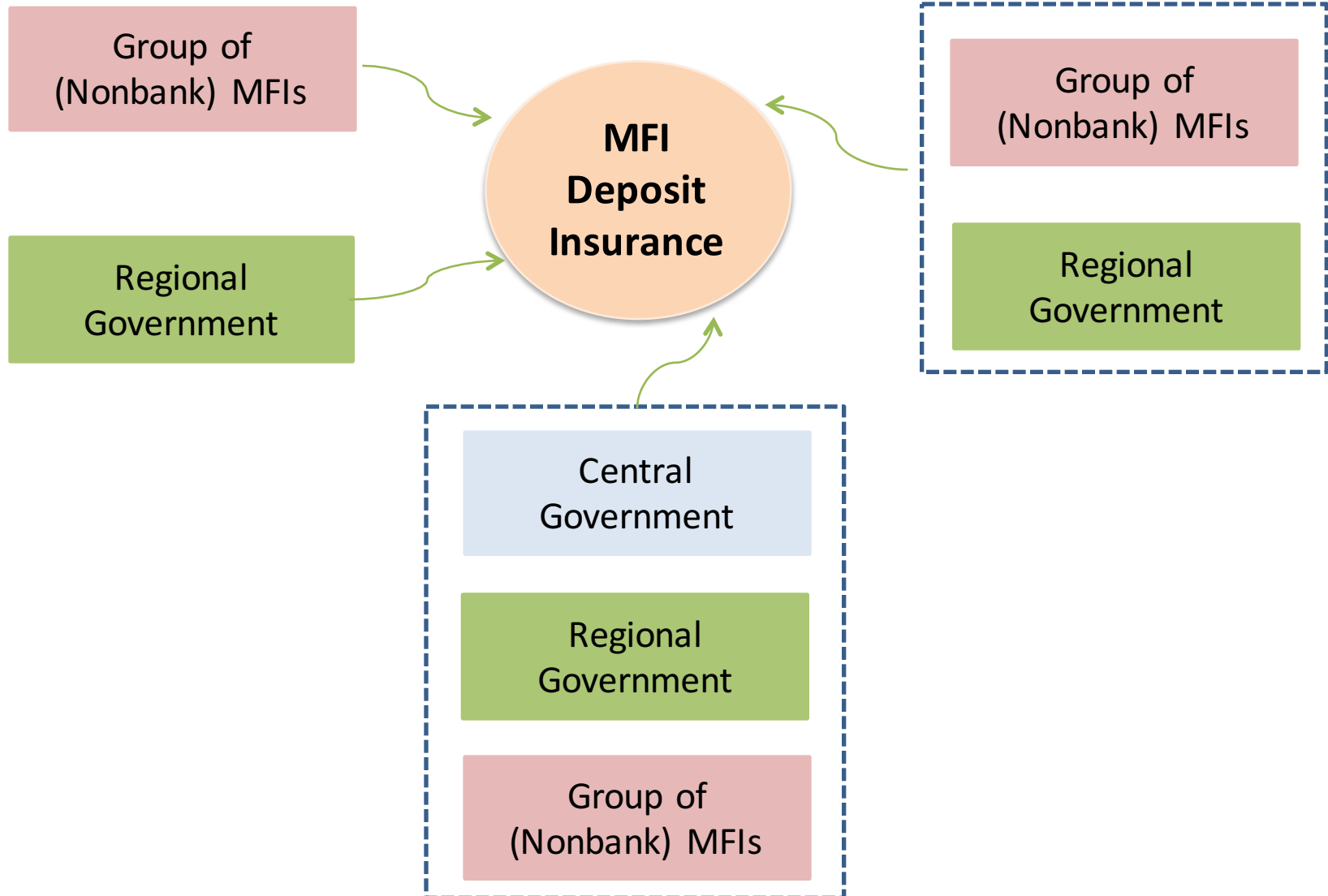
* (Nonbank) MFI is prohibited being owned, either directly or indirectly, by foreign nationals and/or business entities whether in part or in whole owned by foreign citizens or foreign corporations.

Coverage Area	Minimum Paid Capital
Village	IDR 50 million
Subdistrict	IDR 100 million
City/County/District	IDR 500 million

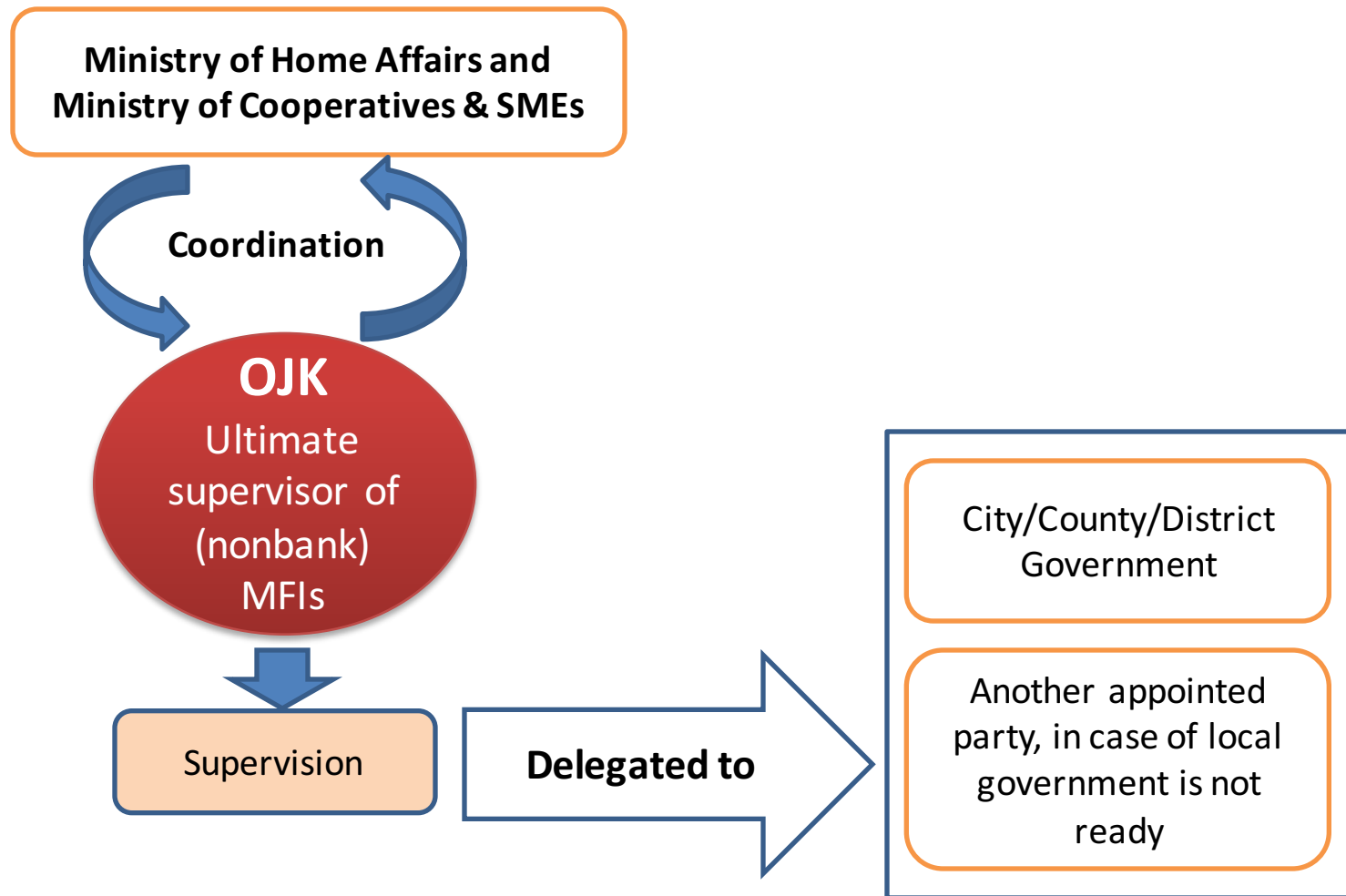
Licensing Mechanism of (Nonbank) MFIs



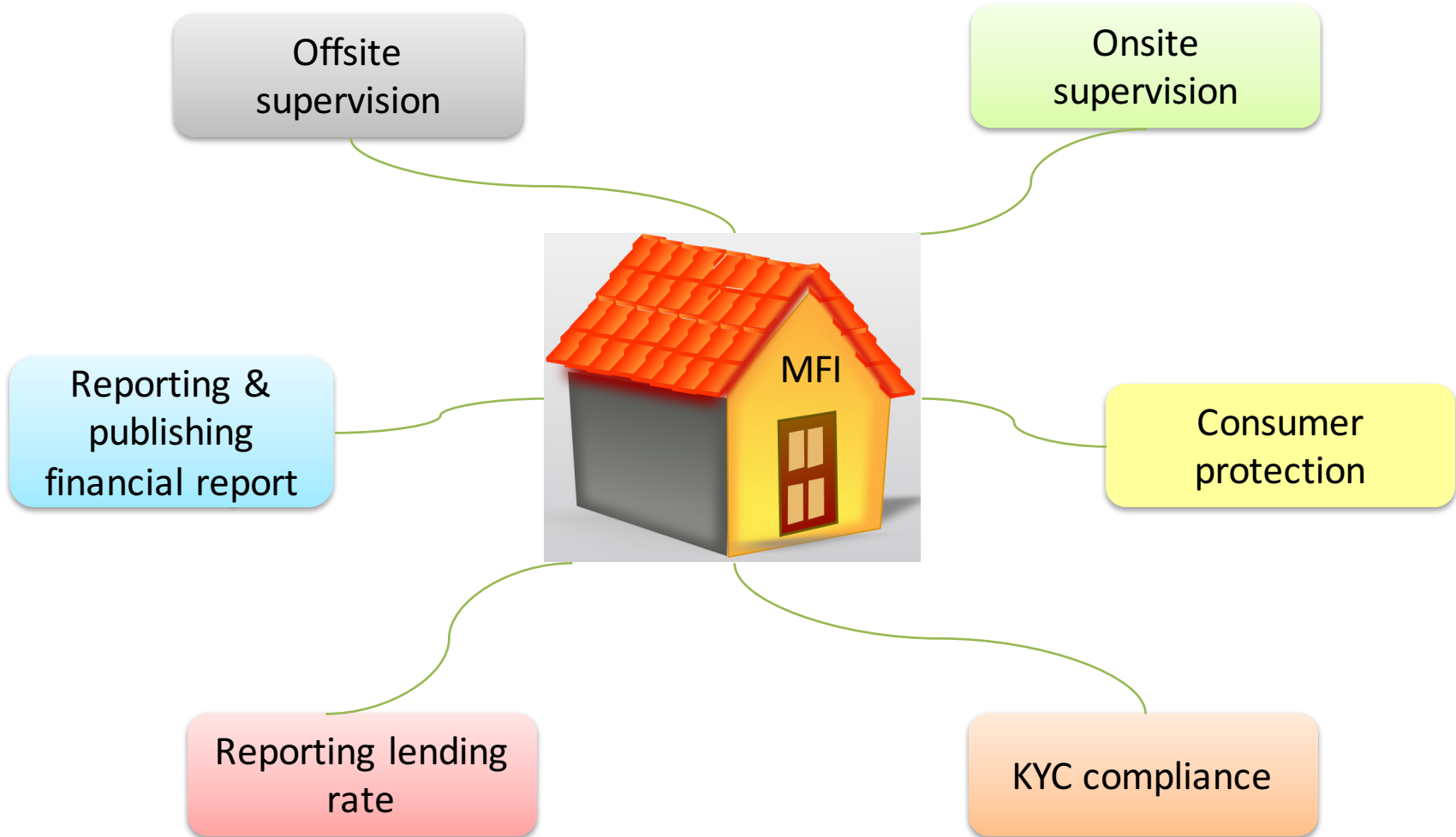
MFI Deposit Insurance



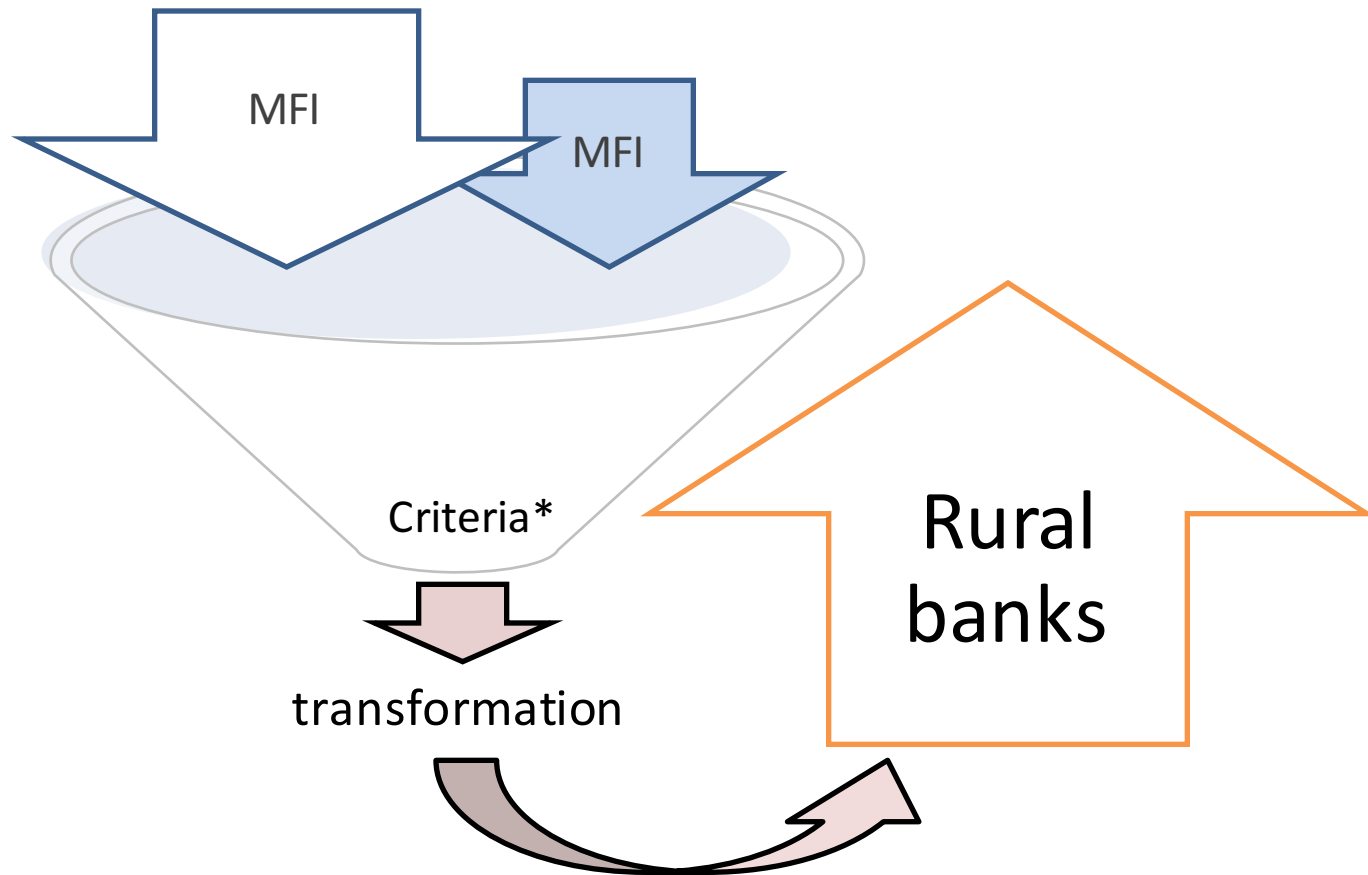
Supervision of (Nonbank) MFIs



Supervisory Regulations



Transformation of (Nonbank) MFIs



Criteria:

- MFI conducts business activities in excess of 1 (one) county/city in which MFI is located; or
- Equity is at least 5x of minimum capital requirement of rural bank and total deposits is at least 25x of minimum capital requirement of rural bank.

Challenges



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Work Plan of MFI Policies

Policies	Status
Survey and educate the informal MFIs*	On going
Transform the informal MFIs into (nonbank) MFIs, cooperatives, or village-owned business entities*	On going
Assist, regulate, and supervise (nonbank) MFIs	Gradually implemented
Empower (nonbank) MFIs:	
– Linkage program with other financial institutions	Will be implemented (medium term)
– APEX of MFIs	Will be implemented (long term)
– MFIs deposit insurance	Will be implemented (long term)

* In coordination with Ministry of Home Affairs; Ministry of Cooperatives & SMEs; Ministry of Villages, Underdeveloped Regions & Transmigration; and Regional Governments (Province/City).

Why do MFIs have to be formalized & supervised?

- To legalize deposit taking activities
- To protect depositors
- To ensure sustainability of MFIs
- To raise credibility of MFIs
- To enable synergy between MFIs, other formal institutions, and MSMEs development programs

Challenges

Transform the informal MFIs into formal entities

a. Internal factors

- Lack of skilled human resources
- Reluctant to be licensed & supervised

Key strategy:

clear guidance & intensive assistance

Challenges

b. External factors

- Many related laws & regulations (MSMEs Act, Cooperatives Act, Limited Liability Company Act, Village Act, Regional Government Act, etc). Example: legal issue on ownership of revolving fund
- Many stakeholders

Key strategy:

consultation, coordination & harmonization

Thank You

